



BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**FILED**

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Order Instituting Rulemaking to  
Implement the California Renewables  
Portfolio Standard Program

R. 04-04-026

**REPLY COMMENTS  
OF THE DIVISION OF RATEPAYER ADVOCATES ON THE PROPOSED  
DECISION ON PETITION FOR MODIFICATION OF  
DECISION 05-12-042**

The Division of Ratepayer Advocates (DRA) submits the following reply comments on the Proposed Decision (PD) on the Petition for Modification of Decision (D.) 05-12-042. DRA supports the PD. Southern California Edison Company (SCE) filed opening comments opposing the PD. DRA finds that SCE's arguments and conclusions in opposition to the PD are erroneous and without merit.

**SCE'S ARGUMENT AGAINST THE PROPOSED DECISION IS MISLEADING**

SCE argues in its opening comments that the Commission's regulation of GHG emissions should not be considered in the total cost of fossil fuel generated electricity because it may never result in an "out-of-pocket" expense. This argument is wrong. "Out-of-pocket" strictly means a "generator's" variable expense, that is, an expense incurred by a generator in proportion to the amount of natural gas consumed by a combined cycle gas turbine (CCGT) used to produce electric energy. Thus, SCE reasons that if the current and future regulations of GHG are directed to another part of the

electricity market instead of the generators, the Commission must ignore whatever ultimate impact such regulation may have on ratepayers or the environment.

“Under a load-based regulatory scheme...a limit on GHG emissions is only directly applicable to LSEs<sup>1</sup>: generators would not incur any “out-of-pocket” expenses related to such regulations.”<sup>2</sup>

DRA maintains that the GHG adder must be considered on a broader level. Even under a “load-based regulatory scheme” a generator that emits CO<sub>2</sub> or other GHGs will ultimately incur costs to continue to emit at the same level. This cost must pass on to the user of the electricity. This is true under any cap and trade system with the rate per pound of CO<sub>2</sub>e set by a market, or a “carbon” fee system with the rate set by regulators. Otherwise, the cost of emitting GHGs would not be reflected in the cost of energy, and the system would not reduce GHG emissions. Whether a GHG cap system is “load based”, “generator based” or “first seller based”, the GHG cost must become an “out of pocket” (directly dependent on the pounds of GHGs produced) expense imposed somewhere between the fuel extraction and the final delivery of electricity, and paid by the user. This is the way an emissions reduction scheme works to reduce GHG emissions, its *raison d’etre*.

San Diego Gas and Electric (SDG&E) makes a much simpler argument against the proposed decision, but does so in its response to Draft Resolution E-4118. SDG&E argues that the latest Market Price Referent (MPR) was not computed with the GHG adder approved in the PD, and including it now is impractical. DRA urges the Commission to coordinate the PD and the Draft Resolution to correct this oversight. Any problem in reconciling the PD and the Draft Resolution is one for the Energy Division, not the utilities, and SDG&E does not explain why a slight delay to update the MPRs will affect their selections of renewable options at this time.

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<sup>1</sup> Load Serving Entity, meaning a utility or electric service provider. This explanatory note is not in the original.

<sup>2</sup> Comments...on Proposed Decision” September 10, 2007, p.4.

**I. CONCLUSION**

For the reasons stated above, DRA respectfully requests that the Commission adopt its recommendations.

Respectfully submitted,

/s/ Noel A. Obiora

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NOEL A. OBIORA  
Staff Counsel

Attorney for the Division of Ratepayer  
Advocates

California Public Utilities Commission  
505 Van Ness Ave.  
San Francisco, CA 94102  
Phone: (415) 703-5987  
Fax: (415) 703-2262

September 14, 2007

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I hereby certify that I have this day served a copy of the foregoing document  
**“REPLY COMMENTS OF THE DIVISION OF RATEPAYER ADVOCATES ON  
THE PROPOSED DECISION ON PETITION FOR MODIFICATION OF  
DECISION 05-12-042 ” in R.04-04-026.**

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/s/ Imelda C. Eusebio

Imelda C. Eusebio

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## Service List for R.04-04-026

dgulino@ridgewoodpower.com  
keith.mccrea@sablau.com  
csmoots@perkinscoie.com  
rresch@seia.org  
garson\_knapp@fpl.com  
david.saul@solel.com  
dhuard@manatt.com  
rkeen@manatt.com  
douglass@energyattorney.com  
klatt@energyattorney.com  
cathy.karlstad@sce.com  
amsmith@sempra.com  
fortlieb@sandiego.gov  
troberts@sempra.com  
rwinthrop@pilotpowergroup.com  
rwinthrop@pilotpowergroup.com  
GloriaB@anzaelectric.org  
thunt@cecmail.org  
Joe.Langenber@gmail.com  
dorth@krcd.org  
jaturmbu@ix.netcom.com  
pepper@cleanpowermarkets.com  
wblattner@semprautilities.com  
bfinkelstein@turn.org  
stephen.morrison@sfgov.org  
fjs@cpuc.ca.gov  
rsa@a-klaw.com  
alhj@pge.com  
ecl8@pge.com  
bill.chen@constellation.com  
bcragg@goodinmacbride.com  
jsqueri@goodinmacbride.com  
jkarp@winston.com  
jbloom@winston.com  
ssmyers@att.net  
arno@recurrentenergy.com  
gpetlin@3degreesinc.com  
jhamrin@resource-solutions.org  
jchamberlin@strategicenergy.com  
ralf1241a@cs.com  
jpigott@gen3solar.com  
wbooth@booth-law.com  
sherifl@calpine.com  
gmorris@emf.net  
jpross@sungevity.com  
nrader@calwea.org  
tomb@crossborderenergy.com

janreid@coastecon.com  
meganmmyers@yahoo.com  
johnredding@earthlink.net  
jweil@aglet.org  
jsanders@caiso.com  
jdalessi@navigantconsulting.com  
abb@eslawfirm.com  
dcarroll@downeybrand.com  
janmcfar@sonic.net  
steven@iepa.com  
notice@psrec.coop  
ryan.flynn@pacificorp.com  
karen.mcdonald@powerex.com  
bshort@ridgewoodpower.com  
roger@berlinerlawpllc.com  
obrienc@sharpsec.com  
vsuravarapu@cera.com  
porter@exeterassociates.com  
tjaffe@energybusinessconsultants.com  
cswollums@midamerican.com  
mcollins@icc.illinois.gov  
abiecunasjp@bv.com  
pletkarj@bv.com  
rosemary.mcmahill@currentgroup.com  
jon.jacobs@paconsulting.com  
kjsimonsen@ems-ca.com  
jenine.schenk@apses.com  
chilen@sppc.com  
emello@sppc.com  
emello@sppc.com  
jgreco@caithnessenergy.com  
hyao@semprautilities.com  
rprince@semprautilities.com  
steve@energyinnovations.com  
THAMILTON5@CHARTER.NET  
jackmack@suesec.com  
case.admin@sce.com  
frank.w.harris@sce.com  
gary.allen@sce.com  
woodrujb@sce.com  
lizbeth.mcdannel@sce.com  
aabed@navigantconsulting.com  
lwrazen@sempraglobal.com  
tcorr@sempra.com  
liddell@energyattorney.com  
scottanders@sandiego.edu  
mmilner@coral-energy.com

centralfiles@semprautilities.com  
cmanzuk@semprautilities.com  
susan.freedman@sdenergy.org  
dniehaus@semprautilities.com  
jleslie@luce.com  
Mlungi@energycoalition.org  
csteen@bakerlaw.com  
jleblanc@bakerlaw.com  
olsen@avenuecable.com  
hal@rwitz.net  
mdjoseph@adamsbroadwell.com  
diane\_fellman@fpl.com  
Dan.adler@calcef.org  
mhyams@sfwater.org  
dwang@nrdc.org  
dcover@esassoc.com  
filings@a-klaw.com  
sdhilton@stoel.com  
snuller@ethree.com  
dickerson07@fscgroup.com  
dbrockett@navigantconsulting.com  
ell5@pge.com  
jay2@pge.com  
lennyh@evomarkets.com  
nxk2@pge.com  
jonwerner@paulhastings.com  
cem@newsdata.com  
koconnor@winston.com  
judypau@dwt.com  
bobgex@dwt.com  
sho@ogrady.us  
cpuccases@pge.com  
gxl2@pge.com  
nbb2@pge.com  
vjw3@pge.com  
rwaltherr@pacbell.net  
procos@alamedapt.com  
keithwhite@earthlink.net  
andy.vanhorn@vhcenergy.com  
pthompson@summitblue.com  
dietrichlaw2@earthlink.net  
ramonag@ebmud.com  
mrw@mrwassoc.com  
bepstein@fablaw.com  
rschmidt@bartlells.com  
cchen@ucsusa.org  
janice@strategenconsulting.com

rhwiser@lbl.gov  
DCDG@pge.com  
lynn@lmaconsulting.com  
cpechman@powereconomics.com  
sberlin@mccarthyllaw.com  
davido@mid.org  
brbarkovich@earthlink.net  
rmccann@umich.edu  
demorse@omsoft.com  
cmkehrein@ems-ca.com  
e-recipient@caiso.com  
grosenblum@caiso.com  
saeed.farrokhpay@ferc.gov  
kenneth.swain@navigantconsulting.com  
cpucrulings@navigantconsulting.com  
lpark@navigantconsulting.com  
karly@solardevelop.com  
dougdpucmail@yahoo.com  
mclaughlin@braunlegal.com

dkk@eslawfirm.com  
kdw@woodruff-expert-services.com  
pstoner@lgc.org  
blaising@braunlegal.com  
www@eslawfirm.com  
rroth@smud.org  
vwood@smud.org  
hurlock@water.ca.gov  
lterry@water.ca.gov  
karen@klindh.com  
californiadockets@pacificorp.com  
kyle.l.davis@pacificorp.com  
dws@r-c-s-inc.com  
castille@landsenergy.com  
aes@cpuc.ca.gov  
bds@cpuc.ca.gov  
bwm@cpuc.ca.gov  
dsh@cpuc.ca.gov  
esl@cpuc.ca.gov

jjw@cpuc.ca.gov  
jf2@cpuc.ca.gov  
jmh@cpuc.ca.gov  
mrl@cpuc.ca.gov  
ner@cpuc.ca.gov  
nil@cpuc.ca.gov  
nao@cpuc.ca.gov  
psd@cpuc.ca.gov  
svn@cpuc.ca.gov  
skorosec@energy.state.ca.us  
JMcMahon@navigantconsulting.com  
clausenb@energy.state.ca.us  
hrait@energy.state.ca.us  
kzocchet@energy.state.ca.us  
mprior@energy.state.ca.us  
rmiller@energy.state.ca.us  
trf@cpuc.ca.gov